

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**ADMINISTRATIVE RULE
FISCAL IMPACT STATEMENT**

PROPOSED RULE: 01-372

DATE PREPARED: Jan 15, 2001

STATE AGENCY: Office of the Sec. of Family and Social Services

DATE RECEIVED: Dec 10, 2001

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Digest of Proposed Rule: These proposed amendments to the rules governing pharmacy reimbursement in the Medicaid program revise: (1) the reimbursement methodology for legend drugs and (2) the dispensing fee paid to pharmacists.

Currently, payment for each legend drug is determined as of the date of dispensing using the lowest of: (1) the estimated acquisition cost (EAC); (2) the maximum allowable cost (MAC) of the drug as determined by the Centers for Medicare and Medicaid Services (CMS, formerly HCFA); (3) the state MAC of the drug as determined by OMPP; and (4) the provider's submitted charge, representing the provider's usual and customary charge for the drug. This proposed rule change will base the EAC on 87% of the average wholesale price for each National Drug Code, instead of the 90% currently used. [Note: The third component described above, the state MAC, is being added in a separate rule currently being promulgated by the Office of Medicaid Policy and Planning (OMPP) as #01-303.]

Second, this proposed rule reduces the Medicaid dispensing fee to pharmacists from \$4 to \$3 per legend drug.

Governmental Entities: *State:* Fully implemented, the fiscal impact to the state is estimated to be a reduction in the state share of Medicaid payments to participating pharmacies of about \$9.3 M in FY 2003. This is based on a reduction in total costs, both state and federal, of an estimated \$24.4 M. This would represent an annual reduction in Medicaid pharmacy costs, depending upon future inflation of pharmaceuticals and drug utilization in the Medicaid program.

[Note: The FY 2002 fiscal impact, if any, of the proposed rule is dependent upon the rule promulgation process. OMPP estimated the earliest this rule could be implemented is May 15, 2002, which would result in savings to the Medicaid program of approximately \$2.72 M in the first year; the associated state savings for FY 2002 would then be \$1.03 M. A later implementation date would reduce the FY 2002 impact accordingly.]

This rule places no unfunded mandates upon state government.

Local: Local governmental entities that provide Medicaid-funded legend drugs, such as the pharmacies of county-owned hospitals, may experience some decrease in payments related to Medicaid reimbursement for legend drugs, as well as for the reduction in the dispensing fee, as a result of this rule. However, since program participation is optional, the rule change does not impose an unfunded mandate on local government units that are involved in the Medicaid program.

Regulated Entities: According to OMPP, there are about 1,200 pharmacies enrolled in the Medicaid program serving approximately 650,000 Medicaid recipients. The total reduction in program payments to pharmacies is estimated to be \$24.4 M annually beginning in FY 2003. [Note: There could be some impact in FY 2002, depending upon implementation date.]

Information Sources: Marc Shirley, OMPP, (317) 232-4343.